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151538Z Oct 03

UNCLAS ANKARA 006448

SIPDIS

SENSITIVE

STATE FOR E, EB/IFD, AND EUR/SE
TREASURY FOR OASIA - MMILLS AND JLEICHTER
NSC FOR BRYZA AND MCKIBBEN

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [TU](#)

SUBJECT: TURKEY REACHES AGREEMENT WITH IMF STAFF ON SIXTH
REVIEW, CENTRAL BANK CUTS RATES

REF: A. ANKARA 6422

[B](#). ANKARA 6342

[C](#). ANKARA 6269

[1](#)1. (SBU) SUMMARY: THE IMF STAFF AND THE GOT ANNOUNCED
AGREEMENT TODAY ON A LETTER OF INTENT FOR THE SIXTH REVIEW.
TO MEET THE FISCAL TARGET, THE GOT OPTED TO RAISE TAXES ON
AUTOS AND ALCOHOL. THE CENTRAL BANK CUT ITS OVERNIGHT
BORROWING RATE 3 PERCENTAGE POINTS. THE TIMING OF THE RATE
CUT ON THE SAME DAY THE IMF AGREEMENT WAS ANNOUNCED WAS
PROBABLY NOT A COINCIDENCE AS THE BANK HAS WANTED TO KEEP
PRESSURE ON THE GOT TO UNDERTAKE REFORMS. BECAUSE BOTH EVENTS
WERE LARGELY PRICED IN,
THE MARKET RALLY WAS MODEST, THOUGH BENCHMARK INTEREST RATES
DROPPED BELOW 30 PERCENT BEFORE CLOSING AT 30.01 PERCENT.
POST WILL FOLLOW UP WITH GOT AND IMF OFFICIALS FOR MORE
DETAILS. END SUMMARY.

GOT AND IMF ANNOUNCE AGREEMENT ON LETTER OF INTENT:

[1](#)2. (SBU) AT A JOINT PRESS CONFERENCE OCTOBER 15
STATE MINISTER BABACAN AND IMF MISSION CHIEF REZA MOGHADAM
ANNOUNCED THAT THE GOT AND FUND STAFF HAD REACHED AGREEMENT
ON A LETTER OF INTENT, PAVING THE WAY FOR THE FUND STAFF TO
PRESENT THE SIXTH REVIEW TO THE IMF BOARD IN EARLY NOVEMBER.
BABACAN'S AND MOGHADAM'S COMMENTS AT THE JOINT PRESS
CONFERENCE SUGGEST THAT THE AGREEMENT IS ALONG THE LINES
DESCRIBED BY RESIDENT REPRESENTATIVE ODD PER BREKK IN REF A.

[1](#)3. (SBU) TO ATTAIN THE 6.5 PERCENT PRIMARY SURPLUS FOR 2003,
BABACAN REFERRED TO MEASURES WORTH 0.3 PERCENT OF GDP. WE
UNDERSTAND THESE INCLUDE INCREASES IN THE SPECIAL CONSUMPTION
TAX FOR AUTOS AND ALCOHOLIC BEVERAGES, WHICH WERE ANNOUNCED
YESTERDAY. THE GOT ALSO ANNOUNCED CIVIL SERVANTS WOULD
RECEIVE PAY INCREASES IN 2004 OF 13.8 PERCENT--
HIGHER THAN THE 12 PERCENT 2004 INFLATION TARGET BUT BELOW
WHAT MEDIATORS HAD PROPOSED TO RESOLVE THE IMPASSE BETWEEN
THE GOT AND PUBLIC SECTOR LABOR UNIONS. THE UNIONS HAVE
CALLED A NATIONWIDE PROTEST OVER THE ISSUE FOR OCTOBER 18.
THE BUDGET MUST BE SUBMITTED TO PARLIAMENT BY OCTOBER 17.

[1](#)4. (U) AT THE PRESS CONFERENCE BABACAN ALSO REFERRED TO THE
NEED TO PASS THE PUBLIC FINANCIAL MANAGEMENT AND CONTROL LAW
AND THE LAW STRENGTHENING THE BRSA.

CENTRAL BANK CUTS RATES:

[1](#)5. (SBU) ALMOST SIMULTANEOUSLY, THE CENTRAL BANK ANNOUNCED IT
HAD CUT OVERNIGHT BORROWING RATES BY 3 PERCENTAGE POINTS
FROM 29 PERCENT TO 26 PERCENT. THE BANK CUT OVERNIGHT LENDING
RATES 4 PERCENTAGE POINTS
FROM 35 PERCENT TO 31 PERCENT. THE TIMING WAS PROBABLY NOT A
COINCIDENCE
AS THE CENTRAL BANK HAS BEEN KEEN TO KEEP PRESSURE ON THE GOT
TO UNDERTAKE REFORMS. THE MARKET HAS BEEN EXPECTING THE BANK
TO CUT RATES SINCE THE LARGE RALLY OF OCTOBER 6 (REF C).

RALLY MODEST BUT BENCHMARK BRIEFLY UNDER 30 PERCENT:

[1](#)6. (SBU) TURKISH FINANCIAL MARKETS HAD LARGELY EXPECTED
AND PRICED IN THE IMF AGREEMENT AND CENTRAL BANK RATE CUTS.

CONSEQUENTLY

TODAY'S RALLY WAS RELATIVELY MODEST WITH THE LIRA ONLY
IMPROVING SLIGHTLY TO 1,409,422 FROM 1,416,020 PER DOLLAR,
ALTHOUGH THE IMKB 100 STOCK MARKET INDEX ROSE 2.32 PERCENT TO
15,371.63. THE YIELD ON THE BENCHMARK TREASURY BILL MATURING
AUGUST 18,
2004 DROPPED BELOW 30 PERCENT DURING THE DAY--THE LOWEST
LEVEL SINCE BEFORE THE 2001 CRISIS--BUT CLOSED AT 30.01
PERCENT.
EDELMAN